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MAY 19 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 19, 1999

Via Hand Delivery

Magalie R. Salas, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Notice of *Ex Parte* Presentation by the Association for Local Telecommunications Services

In the Matter of:	)	
	)	
Access Charge Reform	)	**Docket No. 96-262**
	)	
Petition of U S West Communications, Inc. For Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA	)	**Docket No. 98-157**
	)	
SBC Companies For Forbearance from Regulation as a Dominant Carrier for High Capacity Dedicated Transport Services in Specified MSAs	)	**Docket No. 98-227**
	)	
Petition of Bell Atlantic Telephone Companies For Forbearance from Regulation as a Dominant Carriers in Delaware; Maryland; Massachusetts; New Hampshire; New Jersey; New York; Pennsylvania; Rhode Island; Washington, D.C.; Vermont; and Virginia	)	**Docket No. 99-24**

DC01/CANIJ/81608.1

Petition of Ameritech For Forbearance from Dominant Carrier Regulation of its Provision of High Capacity Services in the Chicago LATA	))))	**Docket No. 99-65**

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Ms. Salas:

Pursuant to Sections 1.1206(b)(1) and (2) of the Commission's Rules, the Association for Local Telecommunication Services ("ALTS") submits this notice in the above-captioned docketed proceedings of an oral *ex parte* presentation made on May 17, 1999 to the following Commission Staff:

Yog R. Varma, Deputy Bureau Chief, Common Carrier Bureau
Jane E. Jackson, Chief, Competitive Pricing Division
Tamara Preiss, Competitive Pricing Division
Edward B. Krachmer, Competitive Pricing Division
Florence O. Setzer, Common Carrier Bureau
Steven Spaeth, Competitive Pricing Division.

The presentation was made by Cronan O'Connell and Jonathan Askin of ALTS, Daniel Kelley of HAI Consulting and Jonathan Canis of Kelley Drye & Warren LLP (collectively, "the parties"). During the presentation, the parties discussed a variety of issues related to the Petitions for Forbearance from price regulation filed by a number of incumbent local exchange carriers ("ILECs") in the above-captioned proceedings. Specifically, the parties argued that ILECs retain market power in relevant product markets that militates against deregulation of their services, including special access. During the presentation, the parties distributed written *ex parte* materials, a copy of which is appended to this filing.

Pursuant to the Commission's rules, ALTS submits an original and one (1) copy of this oral *ex parte* notification and attachment for inclusion in the public record of the above-referenced proceeding. Please direct any questions regarding this matter to the undersigned.

Respectfully submitted,

Jonathan E. Canis

Enclosure:

cc: Yog R. Varma, Deputy Bureau Chief, Common Carrier Bureau
Jane E. Jackson, Chief, Competitive Pricing Division
Tamara Preiss, Competitive Pricing Division
Edward B. Krachmer, Competitive Pricing Division
Florence O. Setzer, Common Carrier Bureau
Steven Spaeth, Competitive Pricing Division
International Transcription Service

Deregulation of Dedicated Access Services: Timing Is Everything

Daniel Kelley
HAI Consulting

May 17, 1999

Introduction

- ILECs have asked for Commission forbearance from special access regulation
  - How are the markets defined?
  - How much competition is there?
  - What conditions are necessary for forbearance?
  - What are the deregulation metrics?

Market Definition

- Why define markets?
- What are the services?
- What is the service market?
- What is the geographic market?

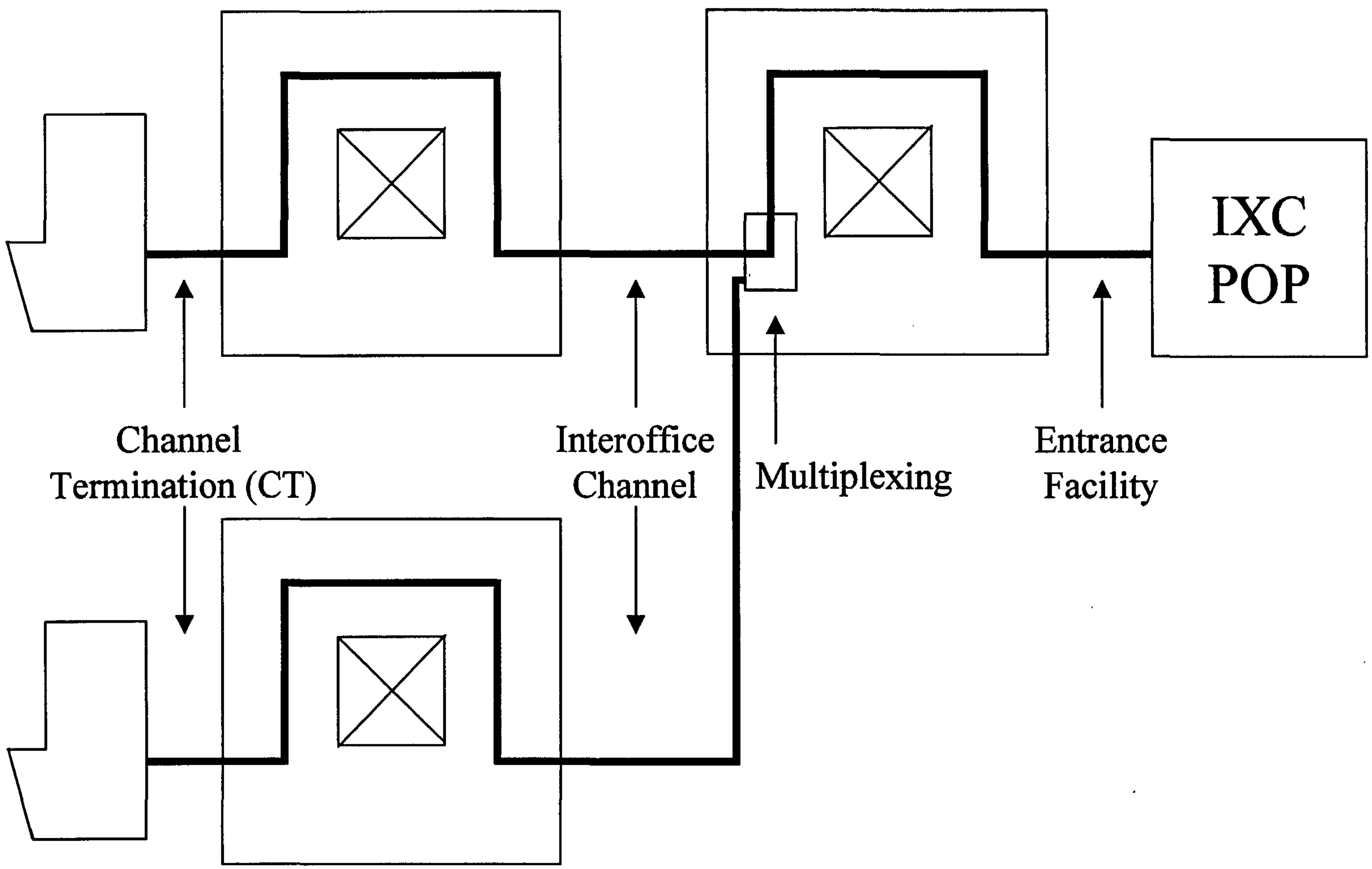
Why Define Markets?

- Markets are places where buyers and sellers come together to engage in trade
- If buyers have a sufficient number of satisfactory alternatives, competition can be relied upon to regulate the market
- Market definitions are necessary to evaluate the presence or absence of viable consumer alternatives

What Are the Services?

- Special Access
  - Channel Termination
  - Multiplexing
  - Inter-office Transport
  - Entrance Facilities

Special Access



What Is the Service Market?

- Alternatives differ by special access rate element
  - Some customers have alternatives for the entire circuit
  - Some customers may have options only for inter-office transport and entrance facilities
- Competition must be evaluated for each element and for the service as a whole

What is the Geographic Market?

- Geographic Dimension
  - Must define the market from end-user's perspective
  - Special access circuits are point-to-point
- Each potential point-to-point circuit is a market
- Is it possible to consider the geographic market more broadly: State, LATA, CBD?

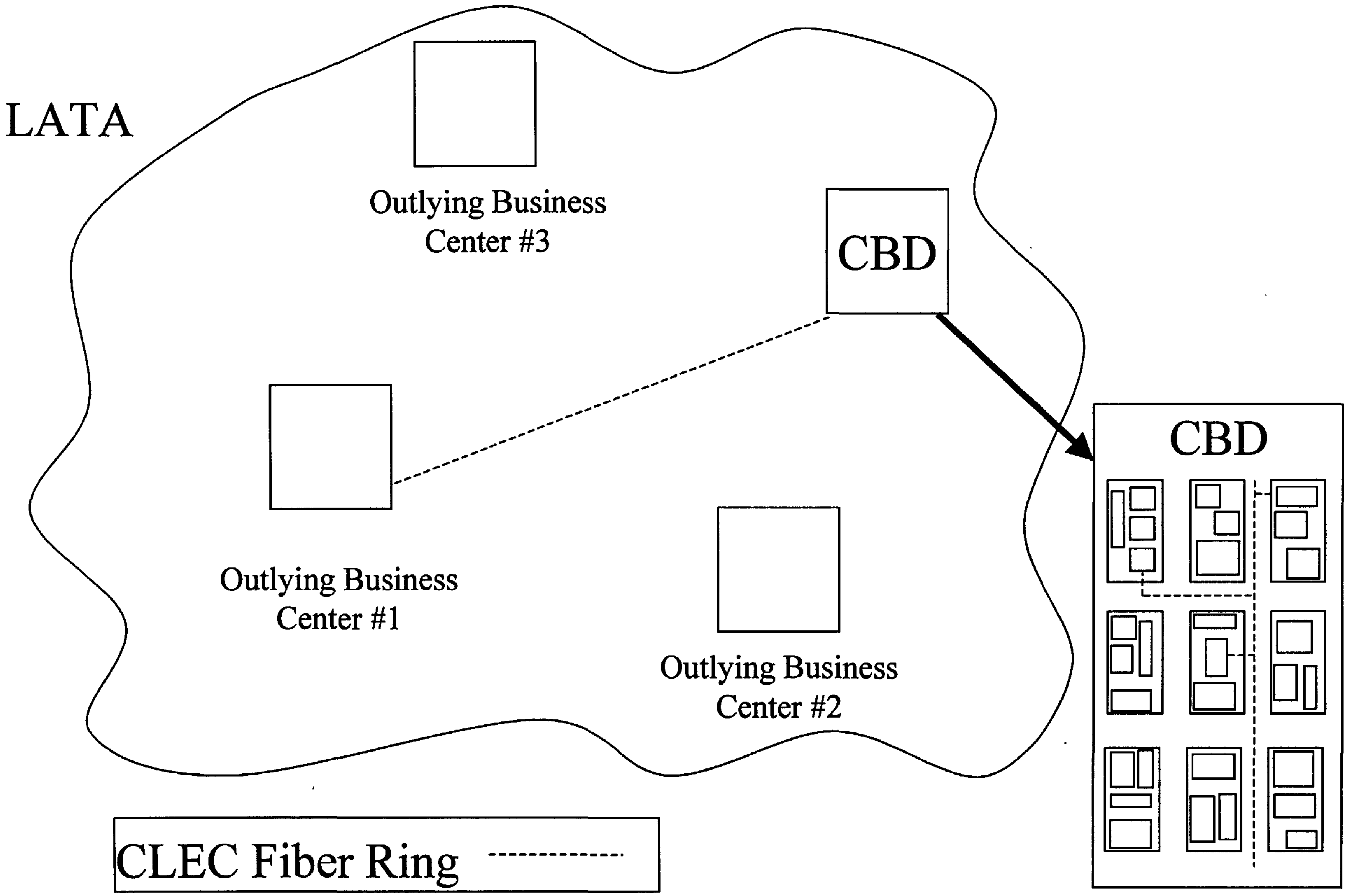
What is the Geographic Market?

- Statewide market?
  - Most end-users in a state do not have competitive alternatives
- LATA-wide?
  - Most end-users in a LATA do not have competitive alternatives
- CBD
  - Even within a major metropolitan area CBD, most end-users will lack alternatives

Barriers to Entry and Substitutes

- Most buildings are not near CLEC fiber rings
  - Fiber ring expansion is costly and time consuming
- Even buildings near fiber rings may not be suitable for extension of facilities
  - High fixed cost
  - Building owner barriers
- UNEs/Collocation not working yet

CLEC Presence



Competitive Implications

- Forbearance would allow contract pricing without any floors or ceilings
  - End-users without competitive alternatives will be discriminated against
    - These end-users may experience significant price increases
  - Predatory behavior cannot be ruled out
    - CLEC investment will be chilled

When Will Customer Specific Contracts be Justified?

- Minimum conditions
  - Entrance Facilities -- multiple collocation opportunities in carrier serving wire center
  - Transport -- collocation in high percentage (e.g., 90%) of end offices in LATA and actual competitive IO facilities
  - Channel Termination -- collocation and UNE provisions are working (evidence of significant use)
- All three conditions must be met

Deregulation and Competition

- Use deregulation as a reward for opening market to competition
  - Cost effective and timely collocation
  - UNE availability at true TELRIC
    - Geographic unbundling
    - True forward-looking costs

State Pricing Flexibility Plans

- The intrastate special access market is small
  - Little to gain and a lot to lose by abusing flexibility
- Interstate access is an effective substitute
  - High prices are unlikely
- Most state private line networks will have nodes that are not served by CLECs
  - Low prices are unnecessary
- Allegations of abuse despite these factors

Comparative Risk Analysis

- Cost of premature deregulation?
  - Damage to competition during initial start-up phase
  - Delay the roll-out of competitive capacity
- Cost of delayed deregulation?
  - ILECS continue to grow
  - Profits are healthy (to say the least)
  - BOCs could cut prices today if they wanted to